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Office of Controller

AUDIT ADVISORY COMMITTEE

AGENDA

WEDNESDAY, JANUARY 27, 1993

ROOM 109G, CITY HALL

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1 Minutes of October 15, 1992 Meeting

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Comprehensive Annual Financial Report (CAFR)

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AUDIT ADVISORY COMMITTEE

AGENDA

WEDNESDAY, JANUARY 27, 1993

ROOM 109G, CITY HALL

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1. Minutes of October 15, 1992 Meeting
2. Review of Comprehensive Annual Financial Report (CAFR)
3. Status of Management Letters  
KPMG Peat Marwick  
Deloitte & Touche  
Hood & Strong
4. Required Communications
5. Next Meeting: Date/Time

DISABILITY ACCESS

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AUDIT ADVISORY COMMITTEE

MEETING NO. (54)

January 27, 1993

Present: Committee Members: Charles LaFollette, Cordell Olive,  
Teresa Serata, Ed Harrington

Absent: Roland Donaldson

Controller's Staff: Teresa Chow, Nori Hirasuna, George  
Linn, Eva Bruce

Outside Auditors:

KPMG Peat Marwick: Pam Edwards, Melina Platt.

Deloitte & Touche: Kevin Harper, Adam Scott

Hood & Strong: Mollie Marshall, Tom Siino

The meeting was called to order at 8:30 a.m. by Chair, Charles LaFollette. Minutes of the October 15, 1992 meeting were reviewed and approved.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR):

Mr. Harrington highlighted the major areas in the Comprehensive Annual Financial Report (CAFR). He described the major changes occurring in the City's economic profile suggesting that San Francisco is simply not the same City of years past. He advised of next week's ongoing discussions with the major rating agencies. Mr. Gamble interjected that a downgrading might be beneficial to getting the serious attention of the Mayor and Board of Supervisors. Mr. Harrington described the disastrous proportions of the economic situation in Los Angeles and stressed like pressures throughout the State of California. Mr. Harrington referred the Committee to page 78 of the CAFR and explained that negative cash amounts occurred because the General Fund did not "back fill" all negative cash balances this year and that a portion of the negative balance reflects the condition of various entities i.e., S. F. General Hospital or Muni which had receivables from other sources.

Mr. LaFollette commended the City for a job well done on the CAFR especially in light of the ongoing staff reductions.





STATUS OF MANAGEMENT LETTERS:

KPMG Peat Marwick:

In Ms. Edwards' review of the Management Letter, she advised that KPMG Peat Marwick was concerned about the City's overall financial health and that while there were some one time fixes in the budget there was no fundamental fix of the problem. She cited the need to improve cash management and expedite collection of monies owed the City. She encouraged the City to continue efforts to design a system that would facilitate customized and flexible reporting. The Management Letter suggests delegation of duties to spread the knowledge of the varied complex areas to ensure a large knowledge base. Oracle is in need of establishment of key performance deadlines. Eva Bruce advised that negotiations with Oracle were continuing and that she expected to have estimates by the end of February with firm dates in place by the end of May, 1993. Ms. Edwards recapped the situation with refunds being made for property taxes as a result of reductions in assessments. This situation created a \$7 million adjustment. Regarding grants and subventions, she stated that though improvement had occurred over the past year there was still need for better control in this area. She advised that a significant miss occurred in the recording of third and fourth quarter claims in DSS. The related safety net in the Controller's Office is not strong. Efficiencies were gained in data processing areas though attention was needed in disaster recovery and security. Mr. Harrington advised that the data centers at City Hall and the Hall of Justice were being merged and would be moved to 1 Market Plaza by the end of the year.

Ms. Edwards addressed the need to work on providing incentives for San Francisco General Hospital and Laguna Honda to continue working towards self sufficiency. Mr. LaFollette expressed the importance of supporting their long term plans. In the Health Service System, Ms. Edwards cited an ongoing backlog in processing claims. KPMG Peat Marwick also suggested that additional actuarial services be provided to ensure accuracy in computations in the City's contributions to the Retirement System. A single audit was recommended of the Deferred Compensation system administered by ITT Hartford.

Status of Prior Recommendations:

Workers' compensation and the need for oversight and control remains an area of concern. Ms. Serata advised that the City was actively seeking a third party administrator to more effectively manage the claims. The expected implementation date is 5/1/93. Ms. Serata acknowledged minor improvements from City Departments especially the Fire Dept. in reducing these costs.



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A recommendation was made to enhance the Audit Division's scope to cover all components of Equity in Treasurer's Cash. Progress needs to occur in the area of Fixed Asset Inventory. The last area of concern is the need for adequate staffing in the Retirement System's investment securities section

DELOITTE AND TOUCHE:

Water Dept. and Hetch Hetchy:

Adam Scott reviewed the Management Letter addressing the Public Utilities Commission (PUC). He described the need for the PUC to establish policies and procedures to record additions to fixed assets and to reconcile to the general ledger periodically. He also cited the need for standardization of security in computer system environments. In both the Water Dept. and Hetch Hetchy Project, a need exists for reconciliation of escrow cash accounts which should be fully supported by original source documentation.

MUNI:

Regarding security in the MUNI currency vault, employees should wear jumpsuits with no pockets as standard attire. A security camera should also be installed.

Cash balances need to be more carefully managed. Completed projects should be closed out quarterly and remaining balances transferred back to operating fund's unrestricted fund balance. MUNI should estimate the value of sold tokens which will never be used and reclass this amount to revenue.

Development of a comprehensive risk-based contingency plan in case of disaster is needed.

MUNI should maintain follow-up documentation on exceptions of the monthly cable car cash receipts audit to ensure that exceptions are properly resolved. Employees handling cash should be bonded. Mr. Harrington said it would be prohibitively expensive to bond all the employees handling cash given the amount of exposure that exists. MUNI should have an audit performed annually on the advertising revenue.

PUC:

PUC needs to develop an interim closing schedule. They did hire a Director of Enterprise Accounting to facilitate the year-end reporting requirements. Mr. Scott advised that the PUC has not implemented the recommendation to review the Suburban Revenue Requirement Calculation to identify opportunities to increase the Suburban Purchasers allocation while complying with the Agreement.



HOOD AND STRONG:

S.F. International Airport:

Tom Siino reported that the Airport very efficiently handles their accounting responsibilities. Their reports are all done in a timely manner. Mr. Siino did acknowledge an excessive volume of reports being received by the Airport from the City and County. Therefore, all extraneous reports should be omitted. There is a need for control over programming changes and Hood and Strong continues to recommend that management assign the responsibility of reviewing completed system/program changes and corresponding documentation to a Programming/System Supervisor. Mr. Siino further noted that the Bond reserves are in excess of required reserve levels.

Port:

Mollie Marshall reported that the Port reorganized last year and that certain positions had been eliminated and responsibilities redefined. She noted a personnel shortage in the area of collections and that receivables over 30 days old increased substantially. Billing adjustments were not communicated in a timely manner between tenant and cargo services and the billing section. In general, more oversight was needed in the areas of collections and billings. Discussion of tenant leases revealed that many major Port tenants have 60 year leases which do not expire until past the year 2000. The Port has implemented a review and approval process for unique terms in leases. Also noted, the Port did hire someone to ensure adequate and prompt reimbursement for necessary repairs due to earthquake damage. The Port also provided staffing for Management Information Services to provide support for PC, computer operations and telephone system.

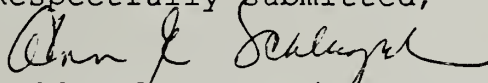
REQUIRED COMMUNICATIONS:

All three audit firms discussed the "Required Communications" statements with the Committee. There were no issues requiring additional disclosure.

NEXT MEETING:

The next meeting will be Thursday, March 25, 1993 at 8:30 a.m in Room 109G of the Controller's Office. There being no further business, the meeting was adjourned at 9:30 a.m.

Respectfully submitted,



Ann E. Schlegel, Recording Secretary







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## AUDIT ADVISORY COMMITTEE

## AGENDA

THURSDAY, MARCH 25, 1993

ROOM 109G, CITY HALL

1. Minutes of January 27, 1993 Meeting
2. Responses to Management Letter Comments
3. Internal Audit Progress Report
4. Next Meeting: Date/Time

## DISABILITY ACCESS

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AUDIT ADVISORY COMMITTEE

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MEETING NO. 56

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March 25, 1993

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Present: Committee Members: Charles LaFollette, Roland Donaldson,  
Cordell Olive, Teresa Serata, Ed Harrington

Controller's Staff: Eva Bruce, Nori Hirasuna, George  
Linn, Teresa Chow

Outside Auditors: KPMG Peat Marwick: Pam Edwards,  
Hood & Strong: Mollie Marshall, Tom Siino; Deloitte &  
Touche: Lisa Nicolini

The meeting was called to order at 8:30 a.m. by Chair, Charles  
LaFollette. Minutes of the January 27, 1993 meeting were reviewed  
and approved.

RESPONSES TO MANAGEMENT LETTER COMMENTS:

KPMG PEAT MARWICK:

Pam Edwards of KPMG Peat Marwick recapped the responses to the  
Management Letter. Areas addressed included: Controller's Office  
Fiscal Health, Cash Management, Reporting Capabilities, Office  
Transition, Oracle Project, Property Taxes (Proposition 8),  
Assessor's Office, Control over Grants and Subventions. Data  
Processing issues included Consolidation of City-Wide Processing,  
Continuation of Processing Capabilities, Security Administration  
and Data Integrity Controls, City Telecommunications Issues, City-  
Wide Disaster Recovery Plan, Impact of Early Retirement on ISD.  
Hospitals, both SFGH and LHH, along with the Health Service System  
and Retirement were addressed. Responses to prior Management  
Letters were considered.

DELOITTE AND TOUCHE:

Lisa Nicolini representing Deloitte & Touche covered the Management  
Letter comments regarding the Public Utilities Commission.  
Specific issues included the internal control structure, i.e. Fixed  
Asset Accounting; Computer Systems Security Administration; Wang  
System Logical Access; Cash; Currency Vault. Under Accounting  
Records and Procedures responses to Cash; Project Completion; and  
Tokens were considered. Under Administrative and Other Matters  
responses to Contingency Planning; Monthly Cable Car Audit;  
Employee Bonding and Advertising Revenue were discussed. Both  
Interim Financial Information and the Suburban Revenue Requirement  
were reviewed as part of the Interim Management Letter  
Recommendations.



HOOD & STRONG:

Mollie Marshall and Tom Siino presented the Management Letter Comments regarding the Airports Commission and the Port Commission. The areas of concern for the Airports Commission included System Generated Reports and Control over Programming Changes. They reported favorably that prior Management Letter concerns have now been cleared. These included Accounts Payable Processing Improvement; Bond Penalties and Bond Reserves.

Regarding the Port Commission, responses were reviewed for Responsibility for CPI Adjustments and Collection Calls and Follow-up. Responses to prior Management Letters were discussed including Accounts Receivable Subsidiary Ledger; Tenant Lease Agreements; New Organization Structure; Comp Time for Z Employees; Earthquake Damages; and MIS Departmental Structure.

INTERNAL AUDIT PROGRESS REPORT:

Nori Hirasuna presented the Audit Status Report for Fiscal Year 1992-93. Highlights of the report included a review of the Parking and Traffic Ticket Process; Department Head Departures at the Police Department; Civil Service Commission Review; 4/10 vs 5/8 Police Department Scheduling.

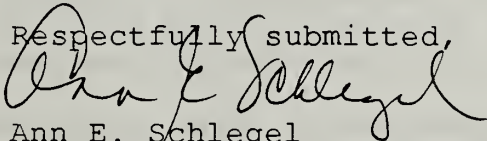
Mr. Hirasuna advised that 5 Financial Audit Reports; 5 Performance Audit Reports; 1 Information System Report; and 17 Concession Audit Reports had been completed so far this fiscal year. He further commented that there are 6 Financial Audits; 5 Performance Audits; 2 Information System Audits; and 25 Concession Audits in progress.

NEXT MEETING:

The next meeting will be held on Thursday, June 17, 1993 at 8:30 a.m. in Room 109G of the Controller's Office.

There being no further business, the meeting was adjourned at 9:30 a.m.

Respectfully submitted,

  
Ann E. Schlegel  
Recording Secretary





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AUDIT ADVISORY COMMITTEE

## AGENDA

THURSDAY, JUNE 17, 1993

ROOM 109G, CITY HALL

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1. Minutes of March 25, 1993 Meeting
2. Review External Audit Plans
  - A) KPMG Peat Marwick
  - B) Deloitte and Touche
  - C) Hood and Strong
3. Tax and Revenue Anticipation Note: Cash Position of the City
4. Changing Environment in Local Government and its impact on the CAFR
5. Next Meeting: Date/Time

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AUDIT ADVISORY COMMITTEE

MEETING NO. 57

June 17, 1993

Present: Committee Members: Charles LaFollette, Roland Donaldson, Cordell Olive, Teresa Serata, Ed Harrington

Controller's Staff: Eva Bruce, Nori Hirasuna, George Linn, Teresa Chow

Outside Auditors:

KPMG Peat Marwick: Pam Edwards, Denise Price  
Hood & Strong: Mollie Marshall, Tom Siino  
Deloitte & Touche: Lisa Nicolini, Adam Scott

The meeting was called to order at 8:30 a.m. by Chair, Charles LaFollette. Minutes of the March 25, 1993 meeting were reviewed and approved.

REVIEW OF EXTERNAL AUDIT PLANS:

KPMG PEAT MARWICK:

Pam Edwards highlighted several areas in KPMG's Audit Plan. In discussing the key dates, she noted that the timing was being pushed back a week or two but foresaw no significant impact on the overall deadline. She expressed concern about the budgetary cutbacks which are forcing a significant number of key people to be laid off. Ms. Edwards inquired about the true status of SFGH closing. Mr. Harrington responded that there was a lot of posturing and hyperbole occurring in discussion of budgetary cuts to SFGH. It was his considered opinion that the hospital would not close.

Mr. LaFollette inquired about staffing concerns and the revenues needed to pay for needed staff. He specifically asked about the property tax revenues. Mr. Harrington advised that there was a concerted effort underway to address the misstaffing of the Assessor's Office. He stated that attention is needed in the areas of Assessment Appeals, Possessory Interest, and Permit Tracking as well as better tracking of Change of Ownership to ensure that revenue currently being lost is recaptured in a timely manner.

Mr. LaFollette asked what else was being done to generate revenue. Mr. Harrington advised that the City was considering a Commission Based Sales Tax Audit. He described this system as one whereby the City could actually track sales tax at point of sale. He noted that a number of other counties, San Diego in particular, had experienced a significant increase in revenues because of their participation in this audit.





Mr. LaFollette asked for an update on relocation schedule. Mr. Harrington advised that relocation was still on schedule with the first phase expected to occur over a 3 day weekend in either Sept. or Oct. He added that the Hall of Justice move would occur in Dec.

Denise Price reported that the Interim Management Letter would be completed by mid-August. Mr. Harrington introduced the need for auditing the parking corporations. Mr. LaFollette requested additional explanation. Mr. Harrington explained that the Dept. of Parking and Traffic was still fairly new and that the question of control over the non-profit garages was a matter of concern. Mr. LaFollette asked for specific concerns to which Mr. Harrington replied the legal fees and construction contracts particularly in connection with the 5th and Mission Street garage.

DELOITTE & TOUCHE:

Lisa Nicolini and Adam Scott recapped problems associated with the PUC noting that Deloitte & Touche had a stable organization in place to address the PUC changes that may occur. Mr. Harrington characterized the PUC environment as unstable and that their ability to accept grant monies was in jeopardy. Ms. Nicolini expressed her concern about the flux in staff positions at the PUC.

Mr. Donaldson underscored the importance of the audit firms actually evaluating the risk so as to ensure that adequate risk management was in place. He did not believe that statements referring to budgetary cuts and layoffs were adequate without such an evaluation.

HOOD AND STRONG:

Tom Siino and Mollie Marshall reported on the Airport and Port, respectively. Mr. Siino advised the committee of a \$9,000,000 settlement from the 1986 dispute between the Airport and FAA over noise abatement. \$60,000,000 remains in dispute. These monies were all under "Capital Improvements".

Mr. Siino updated the committee on the status of Airport Bonds, stating that \$280,000,000 in bonds was being refunded. These bonds were originally offered in 1973. Mr. LaFollette inquired about the changes in interest rates over the past 20 years. Mr. Siino recalled some double digit years. He advised that a small bond issue was coming up in August.

The conflict between Senator Quentin Kopp and the Airport over the \$2.4 billion dollar expansion is continuing.





Ms. Marshall reported on the status of the Port, particularly the Port Oracle Conversion and construction in progress. Mr. LaFollette queried her about abandoned projects. Ms. Marshall responded that there were abandoned projects in the past. When asked for an example, she cited a coffee concern at the Port that had incurred architectural fees, etc. Mr. Donaldson asked for comment about recent newspaper reports regarding a projected 6% revenue decrease as the result of two firms moving to Oakland. Ms. Marshall reported that there had been a significant decrease in the dredging revenue. In prior years it averaged between \$800,000 and \$1,000,000. This year, however, it was around \$200,000. Mr. Harrington added that many of the non-maritime tenants had very long contracts with minimal penalties for delayed payments. The situation was continually being changed whenever a new contract was negotiated with there now being significant penalties for non-performance of the contract.

In closing, Ms. Marshall stated that August 15, 1993 was still the target date for the Interim Management Letter.

TAX AND REVENUE ANTICIPATION NOTE: CASH POSITION OF THE CITY.

Mr. Harrington described the City's fiscal condition as one in continuing decline. The best news he reported was that on June 15, 1993, 32 bidders competed for \$325,000,000 in TRAN's. The winning bid was 2.57% interest. The rating agencies have given favorable ratings to San Francisco for the short term. In describing the fiscal condition of the City, Mr. Harrington advised that the city would be \$33,000,000 short on June 30, 1993. The City will issue another TRAN to the Transportation Authority on June 30, 1993 to cover this cash deficit. The payback to the Transportation Authority would occur before September, 1993. Mr. Harrington described additional Charter changes being proposed for the November ballot. In addition to procedures for streamlining Cash Transfers, specific language would be included regarding the criteria for declaring a "fiscal emergency" in the City. One criteria is if the revenue dropped 5%, then a fiscal emergency could be declared. This would then allow the City to void Memoranda of Understanding with various labor organizations.

CHANGING ENVIRONMENT IN LOCAL GOVERNMENT: IMPACT ON CAFR:

Mr. Harrington advised that the Controller's Office had been cut by 35 positions during this budget cycle. He identified various high level employees being laid off, including George Linn, Chief Auditor. Though Mr. Harrington is still hoping for something to happen to eliminate this action, he nevertheless publicly thanked Mr. Linn for all his work for the City and the Audit Advisory Committee. Other key personnel were identified as Susan Maher,



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June 17, 1993  
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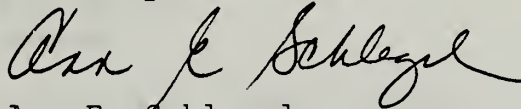
Special Projects Manager; and Chris Baldo, Oracle Team. He further reported that the Controller's Office had been cut almost 10% every year for the past 4 years.

NEXT MEETING:

The next meeting of the Audit Advisory Committee will be on October 14, 1993 at 8:30 a.m. in Room 109G. Mr. LaFollette advised the Committee that they should schedule a meeting if the August deadlines became an issue of concern. He will be on an extended holiday.

There being no further business, the meeting adjourned at 9:30 a.m.

Respectfully submitted,

A handwritten signature in cursive script, reading "Ann E. Schlegel".

Ann E. Schlegel  
Recording Secretary

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## AUDIT ADVISORY COMMITTEE

## AGENDA

THURSDAY, OCTOBER 14, 1993 at 8:30 a.m.

ROOM 109G, CITY HALL

1. Minutes of June 17, 1993 Meeting
2. Review Status of 1993-94 Year End Audit
3. Review Interim Management Letter
  - A) KPMG Peat Marwick
  - B) Deloitte and Touche
  - C) Hood and Strong
4. Internal Audit Plan for Fiscal Year 1993-94
5. Next Meeting: Date/Time

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AUDIT ADVISORY COMMITTEE

AGENDA

THURSDAY, JANUARY 13, 1994 at 8:30 a.m.

ROOM 109G, CITY HALL

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1. Minutes of October 14, 1993 Meeting
2. Sunshine Ordinance
3. Review Comprehensive Annual Financial Report
4. Review Status of Year-End Management Letter
5. Internal Audits Division Audit Status for FY 1993-94
6. Audit Contracts for FY 1994-95 and FY 1995-96
7. Public Comments
8. Next Meeting: Date/Time

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AUDIT ADVISORY COMMITTEE

MEETING NO. 59

January 13, 1994

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Present: Committee Members: Charles LaFollette, Ed Harrington,  
Cordell Olive, Teresa Serata/Derek Chu/David Heindel

Controller's Staff: Nori Hirasuna, Teresa Chow, Eva Bruce

Outside Auditors:

KPMG Peat Marwick: Pam Edwards, Denise Price

Hood & Strong: Mollie Marshall, Tom Siino

Deloitte & Touche: Lisa Nicolini, Adam Scott

The meeting was called to order at 8:30 a.m. by Chair, Charles LaFollette. Minutes of the October 14, 1993 meeting were reviewed and approved.

COMPREHENSIVE ANNUAL FINANCIAL REPORT: (CAFR)

Mr. Harrington thanked Teresa Chow and Eva Bruce and their respective staffs for the production of the Comprehensive Annual Financial Report and highlighted a number of issues in the CAFR including the Transportation Authority Tax and Revenue Anticipation Note (TRAN) and Airport loan transactions.

YEAR-END MANAGEMENT LETTERS:

Ms. Chow commented on the status of Management letters and advised that all responses would be available at the next meeting.

KPMG Peat Marwick:

Denise Price commented on the continued need for improvement in the Assessor's Office. The source of the problem is threefold. It involves people, technology, and the work process. Mr. LaFollette suggested that he and Mr. Harrington meet with Assessor Ward in the interest of encouraging forward movement to address the problems outlined in the Management Letter by KPMG Peat Marwick.

Regarding the subject of Workers Comp, there is an ongoing need to estimate ultimate exposure and departments need to be held accountable. Though the City has been outsourcing for Claims management, the City still needs to monitor Workers Comp since we are self-insured.

Hood and Strong:

Mollie Marshall and Tom Siino addressed the conditions at the Port. They advised that the Port reorganization did not work as designed.





With Dennis Bouey becoming the Director of the Port, they expressed confidence that he would focus attention on management and financial issues.

Deloitte and Touche:

Lisa Nicolini and Adam Scott reported on the continued lack of resources to adequately and appropriately keep track of the PUC and Muni finances. Mr. Harrington advised that it was going to get worse for a while longer while Prop M is being implemented to establish Muni as a separate department from the PUC. Mr. Harrington indicated he would set up a meeting with the auditors and PUC/MUNI staff to make sure that auditor concerns were heard.

INTERNAL AUDITS: STATUS FOR FY 1993-94:

Nori Hirasuna provided a recap of the audits performed by the Division over the past 6 months. He reported that as a result of the audit conducted on the S.F. Giants, the City had received a \$350,000 check for underpayment of fees due the City. Mr. Hirasuna reported that the number of concession audits projected to be done at the Port and Airport had increased from 25 last year to 55 this year.

SUNSHINE ORDINANCE:

Mr. Harrington gave a brief overview of the Sunshine Ordinance. One of the requirements of the Sunshine Ordinance is regularly scheduled meetings. Mr. Harrington motioned and Mr. Olive seconded the establishment of the regular meetings as the 2nd Thursday of January, April, July, and October of each year.

AUDITING CONTRACTS:

After the departure of the representatives of the three auditing firms, the Committee discussed their respective contracts. Mr. Harrington pointed out that the Mayor's Office will expect the Departments involved to absorb any increases. The Committee discussed the fact that past fee increases from 1992-94 and the proposed increases by all firms have been higher than the inflation rates for such years. In addition, City employees have had their wages frozen in several of those years. For the above three reasons, the Committee instructed the Controller's staff to negotiate a flat rate for the 94-95 fiscal year. Mr. Harrington expressed that the PUC audit may be an exception due to Prop M and the staffing situation. He indicated he would report back on these negotiations at the next meeting.



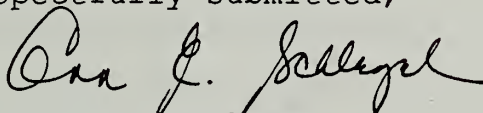
Audit Advisory Committee Minutes  
January 14, 1994  
Page 3

NEXT MEETING:

The next regular meeting is scheduled for Thursday, April 14, 1994  
at 8:30 a.m. in Room 109G at City Hall.

There being no further business to consider, the meeting adjourned  
at 9:30 a.m.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ann E. Schlegel".

Ann E. Schlegel  
Recording Secretary

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AUDIT ADVISORY COMMITTEE

AGENDA

THURSDAY, MAY 5, 1994 at 8:30 a.m.

ROOM 109G, CITY HALL

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1. Minutes of January 13, 1994 Meeting
2. Review Year-End Management Letters
3. Internal Audits Division Audit Status for FY 1993-94
4. Audit Contracts for FY 1994-95 and FY 1995-96
5. Public Comments
6. Next Meeting: Date/Time

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AUDIT ADVISORY COMMITTEE

MEETING NO. 60

May 5, 1994

Present: Committee Members: Charles LaFollette, Ed Harrington, Roland Donaldson, Cordell Olive, Teresa Serata

Controller's Staff: Nori Hirasuna, Elena Lim, Teresa Chow, Eva Bruce

Outside Auditors:

KPMG Peat Marwick: Denise Price

Hood & Strong: Mollie Marshall, Tom Siino

Deloitte & Touche: Lisa Nicolini, Adam Scott

The meeting was called to order at 8:30 a.m. by Chair, Charles LaFollette. Minutes of the January 13, 1994 meeting were reviewed. Mr. LaFollette advised of the need to consider a change in the regular meeting schedule that was established and reflected in the minutes of the January 13, 1994 meeting. With this noted, Mr. LaFollette moved and Mr. Harrington seconded that the minutes of the January 13, 1994 meeting be approved. The vote was unanimous.

REVIEW YEAR-END MANAGEMENT LETTERS:

Deloitte and Touche:

Ms. Nicolini discussed the internal control structure at the Public Utilities Commission and cited the ongoing problems of personnel shortage and the absence of a disaster plan. She does not feel that adequate controls are in place most specifically in the area of Security Administration and Power Supply and related File Backup and Off-site Storage. Mr. LaFollette asked about the true criticality of this situation and what would be the probable impact should the system go down for a period of 30 days. Mr. Harrington stated that the water bills would be delayed. He further explained that other functions are controlled independently, i.e. payroll and accounting, and would not be affected by a failure of the PUC computer system.

Mr. Harrington advised that the City would be implementing the KPMG Peat Marwick FAMIS system and was expected to be functional in the Controller's Office and most satellite departments by May, 1995.

Mr. LaFollette inquired about other areas of concern related to data processing. Mr. Harrington cited Assessor's Office; Workers Comp; Tax Collector's Office; Personnel functions of Human Resources. He advised that ISD was working with Human Resources on a Personnel database. A comprehensive survey of other counties was desirable for the Assessor's Office to determine which options to pursue for a new system.





Audit Advisory Committee Minutes  
May 5, 1994  
Page 2

Mr. Scott in reporting on the Municipal Railway noted that though the Prop M split was to occur on 7/1/94 no clear delineation about the responsibilities or management had occurred.

Mr. Scott advised that Bill Laws had been hired as the new Rate Administrator to review the Suburban Revenue Requirement Calculations. Mr. Scott stated that Mr. Laws was doing an excellent job.

Hood and Strong:

Mr. Siino reported on the Management letter for the Airport and advised of the need to formalize certain policies. He cited differing interpretations of depreciation of items which may have been replaced. Mr. LaFollette suggested that Mr. Siino survey other airports to determine what interpretation was being used in similar situations. Mr. Siino advised that landing fees would not be affected by any change in interpretation.

Ms. Marshall reported on the ongoing problems at the Port and seemed somewhat optimistic that the new Director's approach would have long term positive results for FY 93-94. The Port has gone from a \$2 million dollar surplus on a budget basis to a \$1 million dollar deficit projected unless corrective action is taken. Mr. Bouey is aggressively working to identify sources of revenue and to realign his organization to save money and avoid the deficit. Ms. Marshall cited a continuing loss of major tenants as a primary concern. Mr. Bouey will be invited to attend the next Audit Advisory Committee so that the Committee can hear first hand about the problems he is encountering.

KPMG PEAT MARWICK:

Ms. Price reported on an overall improvement in the budget process this year. In citing areas continuing to need improvement, she identified the ongoing problems of the Assessor's Office. Their deficiencies are staffing, work process, and technology. Ms. Price advised that their firm would like to assist the Assessor's Office to help them correct and better manage their operation. Ms. Serata advised that the Mayor's Fiscal Advisory Committee has directly offered help to the Assessor's Office but their offers have not been accepted. Mr. LaFollette asked Mr. Harrington to schedule a meeting for he and Mr. Harrington to meet directly with Assessor Ward to see what other types of assistance can be rendered.

Ms. Price commented on the concern about the delay until 1/1/95 in transferring the Workers Comp functions to the Human Resources Department.





Audit Advisory Committee Minutes  
May 5, 1994  
Page 3

INTERNAL AUDITS DIVISION AUDIT STATUS FOR FY 1993-94:

Mr. Hirasuna distributed copies of the Audit Status Report for Fiscal year 1993-94. Mr. Harrington acknowledged the significant improvement in volume and quality of audits produced by the Internal Audits Division.

AUDIT CONTRACTS FOR FY 1994-95 AND FY 1995-96:

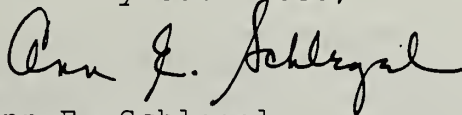
Ms. Chow summarized the Audit Fees proposed by KPMG Peat Marwick; Deloitte & Touche; and Hood and Strong. Basically, these firms agreed to hold their fees flat with the exception of the needed increases due to reorganization of departments caused by Charter changes. The total increase comes to \$18,000 for FY 94-95 with no General Fund increase. The contracts were calculated for a one year period. Mr. LaFollette moved and Mr. Donaldson seconded a motion to accept the Audit Fees as negotiated. The Committee voted unanimously in favor of the motion.

NEXT MEETING:

Mr. LaFollette moved and Mr. Donaldson seconded a motion that the regular meetings be held on the second Thursday of February, May, August, and November. After a unanimous vote, the next regular meeting is scheduled for Thursday, August 11, 1994 at 8:30 a.m. in Room 109G at City Hall.

There being no further business to consider, the meeting adjourned at 9:45 a.m.

Respectfully submitted,



Ann E. Schlegel  
Recording Secretary

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## AUDIT ADVISORY COMMITTEE

## AGENDA

THURSDAY, AUGUST 25, 1994 at 8:30 a.m.

ROOM 109G, CITY HALL

1. Minutes of May 5, 1994 Meeting
2. Introduction of Dennis Bouey, Port of San Francisco
3. Results of Interim Audit, Audit Plan for FY 94-95
4. Certificate of Achievement from Government Finance Officers Association
5. Status of Closing
6. Internal Audit Report
7. Audit Contract Amendments
8. Public Comment
9. Next Meeting: Date/Time

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157 OFFICE OF CONTROLLER

AUDIT ADVISORY COMMITTEE

MEETING NO. 61

August 25, 1994

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Present: Committee Members: Charles LaFollette, Ed Harrington,  
Cordell Olive, Derek Chu

Absent: Roland Donaldson

Controller's Staff: Nori Hirasuna, Teresa Chow

Guests: Dennis Bouey, Director of Port  
Ben Kutnick, Chief Fiscal Officer of Port

Outside Auditors:

KPMG Peat Marwick: Denise Price

Hood & Strong: Mollie Marshall

Deloitte & Touche: Lisa Nicolini, Michael Johnson

The meeting was called to order at 8:30 a.m. by Chair, Charles LaFollette. Minutes of the May 5, 1994 meeting were reviewed. Mr. LaFollette stated his interest in ensuring that concerns documented in the minutes were followed through to resolution. With that noted, Mr. LaFollette moved and Mr. Harrington seconded that the minutes of the May 5, 1994 meeting be approved. The vote was unanimous.

RESULTS OF INTERIM AUDIT

KPMG Peat Marwick

Denise Price recapped the highlights of the General Audit Plan and identified three significant changes. They are:

- Organization-wide system conversion
- Adoption of "Alternate Method of Property Tax Allocation" "The Teeter Plan"
- Implementation of GASB 14

Mr. LaFollette requested a definition of the Alternate Method of Property Tax Allocation. Mr. Harrington explained that The Teeter Plan allows a County to "buy" delinquent taxes owed to entities for which the County is the collection agent. Any monies subsequently paid for penalties or interest incurred by taxpayers for delinquencies are retained by the County. Fifty-four (54) counties throughout California are now operating under the Teeter Plan.

In discussing the organization-wide system conversion, Ms. Price advised that the estimated conversion date of May 1, 1995 was still firm. Mr. LaFollette inquired about the length of time the systems would be running in parallel. Mr. Harrington advised that the systems would run in parallel until system problems are resolved.



Ms. Price described the implementation of the new GASB pronouncements, GASB 14, 22, & 23.

INTRODUCTION OF DENNIS BOUEY, DIRECTOR OF PORT

Mr. Harrington introduced Dennis Bouey, Director of the Port of San Francisco, and Ben Kutnick, Chief Fiscal Officer of the Port. Mr. Bouey addressed the Committee and reported on the financial viability of the Port and responded to questions regarding the financial forecast and leasing conditions.

A major concern of the Port is the loss of cargo carriers. Though San Francisco lost the Evergreen shipping line recently, Mr. Bouey defined the many components that affected the decision. Quite simply, Oakland is better equipped to handle the arrival and transporting of intermodal cargo. San Francisco would have to do additional dredging of the Bay and spend large amounts of capital in order to handle the size of the container ships now being used. Additionally, San Francisco only has limited train systems for transporting of the cargo in compared to Oakland. San Francisco is 2 days behind Oakland for cargo leaving the West coast. Realistically, San Francisco cannot effectively compete with Oakland for certain types of cargo and needs to concentrate on other methods of making the Port more profitable.

He stated that the Port planned to finish the year in the black and attributed the accomplishment of this goal to the changes he made in the organization. Mr. Bouey outlined the organizational changes that were occurring at the Port.

RESULTS OF INTERIM AUDIT (Continued)

KPMG Peat Marwick (Continued)

Ms. Price expressed concern over the number and magnitude of cases in litigation and determining a realistic method of estimating the potential liability for these cases. She advised that Workers' Compensation cases remain a critical area primarily because of the judgment involved in determining the liability and the lack of accountability and management oversight in determining the financial impact.

Mr. LaFollette directed the Committee's attention to Page 32 of the report and expressed concern about the New Investment Vehicles under consideration by the Retirement System for investment of City Retirement funds.



DELOITTE AND TOUCHE:

Lisa Nicolini presented the Interim Audit report on the Public Utilities Commission and advised that Michael E. Johnson, Audit Senior Manager would be responsible for Hetch Hetchy and the Water Department and that Adam Scott, Audit Senior Manager would be responsible for Muni.

Ms. Nicolini stated that there were no surprises in the Interim report and that deficiencies in coordination especially in Muni continued. She cited the need for a documentation of policy and procedures in connection with the implementation of Prop M.

She advised that the Water Dept. and Hetch Hetchy are making changes in capitalization and they are still awaiting an analysis though not expecting significant changes.

Ms. Nicolini expressed concern that Muni has not progressed with a methodology for determining potential liability for Muni Claims and that this could result in a material misstatement of the PUC's liabilities. The Muni needs to establish a realistic Claims Reserve based on potential liability for claims.

HOOD AND STRONG:

Mollie Marshall reviewed the Audit Plan for the Port and Airport. She cited the complex regulations and specific reporting requirements that impact both agencies and advised that they both record deferred revenues which may involve complex calculations. This requires detailed review of related agreements.

GOVERNMENT FINANCE OFFICERS ASSOCIATION:

Teresa Chow advised that the City and County of San Francisco received the Certificate of Achievement from the Government Finance Officers Association for the 11th consecutive year.

STATUS OF CLOSING:

Teresa Chow reported that her staff was doing more front end work to avoid the number of audit adjustments that normally occur during post closing.

INTERNAL AUDIT REPORT:

Nori Hirasuna provided a summary of the audits conducted by the Internal Audits division. Mr. LaFollette inquired about unplanned audits. Mr. Hirasuna responded that we try to allot time in the schedule to accommodate immediate concerns. During 1993-94,





examples include unplanned audits on parking garages and cable cars.

AUDIT CONTRACT AMENDMENTS:

Teresa Chow advised that two amendments had been requested for \$9,000 for additional concession audit at the Port and \$12,500 to assist with Department of Public Works outside engineering firm audit. She indicated that both amendments to the external audit contracts were under \$25,000, and had approved under committee guidelines.

ASSESSOR'S OFFICE:

Mr. LaFollette advised that he and Mr. Harrington met with Assessor Doris Ward and that the Assessor's Office understands the Assessor's role in providing reliable information and the need to forecast potential outcomes of the appeals being considered by the Assessment Appeals Board and the impact on the City's revenue projections.

NEXT MEETING: Date/Time

The next meeting will be held on Thursday, November 10, 1994 at 8:30 a.m. in Room 109G of City Hall.

There being no further business to consider, the meeting adjourned at 9:50 a.m.

Respectfully submitted,



Ann E. Schlegel  
Recording Secretary

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AUDIT ADVISORY COMMITTEE

AGENDA

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THURSDAY, NOVEMBER 10, 1994 at 8:30 a.m.

ROOM 109G, CITY HALL

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1. Minutes of August 25, 1994 Meeting
2. Status of Audit:
  - Issues: GASB #14: Redevelopment Agency Treatment Port
3. Interim Management Letter
4. Internal Audit Report
5. Modification of Audit Contracts
  - Local Transportation Fund
  - Office of Criminal Justice Planning Port
6. 1995-96 Audit Contracts
7. Public Comment
8. Next Meeting: Date/Time

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CITY AND COUNTY OF SAN FRANCISCO

OFFICE OF THE CONTROLLER

Edward Harrington  
ControllerJohn W. Madden  
Chief Assistant Controller0.2  
6/96  
**AUDIT ADVISORY COMMITTEE****AGENDA****TUESDAY, MARCH 26, 1996** 8:30 a.m.**875 STEVENSON STREET, ROOM 300**

DOCUMENTS DEPT.

1. Minutes of November 30, 1995 Meeting
2. Management Letters:
  - KPMG Peat Marwick
  - Deloitte & Touche
  - Hood & Strong
3. Status Report - Internal Audit
4. Risk Assessment for Fiscal Year 1995-96 - Internal Audit
5. Approval/Notification of Other Services:
  - Port's Pier 39 Audit
  - Retirement System - transfer of assets with trustee
6. Next Meeting: Date/Time
7. Interview Audit Firms
8. Public Comment

MAR 22 1996

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## CITY AND COUNTY OF SAN FRANCISCO

## OFFICE OF THE CONTROLLER

Edward Harrington  
Controller

John W. Madden  
Chief Assistant Controller

SF  
C80.2

#1

6/20/96

**AUDIT ADVISORY COMMITTEE  
AGENDA**  
**THURSDAY, JUNE 20, 1996 at 8:30a.m.**  
**875 Stevenson Street, Room 300**

1. Minutes from March 26, 1996
2. Responses to Management Letters  
KPMG Peat Marwick  
Deloitte & Touche  
Hood and Strong
3. Audit Plans  
KPMG Peat Marwick  
Coopers and Lybrand  
Deloitte & Touche
4. Status Report Internal Audits
5. Results of External Peer Review of Audits Division
6. Public Comment
7. Adjournment

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